ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MARCH

Business conditions in March continued to present a confusing picture of conflicting movements. The most recent estimates of personal income and employment indicate a high level of business activity and the continued small advances in the consumer price index provide the basis for inflation fears. However, the wholesale price index, which tends to lead retail price movements, has remained very stable in recent months. Manufacturing employment was down in February and March and weekly hours worked have averaged lower so far this year than in any months in 1956 except May, June, and July.

The index of industrial production in March held at the January-February level of 146 (1947-49 = 100) on a seasonally adjusted basis. Automotive output was about 4 percent above March of last year, but on a daily average basis was slightly below February. Steel production declined throughout the month, running between 6 and 9 percent below capacity. Heavy construction contract awards were slightly above February, but were still more than 20 percent below March, 1956. Electric power output in March was about 5 percent above the month a year ago and about the same as in February.

Employment Up

Employment showed a seasonal increase of 675,000 for the month ending in mid-March, following a rise of 600,000 in the preceding month. These advances raised total employment almost to 63.9 million. Workers out of work but with new jobs pending within 30 days were not included among the employed as they were prior to the February report, but were counted among the unemployed. A seasonal decline of 239,000 brought unemployment down to about 2.9 million by mid-March.

Expansion of employment in agriculture and other outdoor work and among self-employed workers accounted for most of the increases in the two months. Factory employment declined by 24,000 in the month ending in mid-March, bringing the total drop since mid-December to 200,000, compared with a normal reduction of 100,000 for this period.

Construction Outlays Rise

Spending on new construction increased seasonally in March to almost $3.2 billion, about 9 percent above February's $2.9 billion and 3 percent above March, 1956. Private construction outlays accounted for $2.3 billion, 7 percent above February and about the same as a year ago. Expenditures of $890 million for new housing were 10 percent above the previous month, but were still 11 percent below March last year. The $900 million of public construction expenditures represented an increase of 14 percent over February and 13 percent over March, 1956.

With March figures in, it is apparent that the first three months of 1957 saw the highest first quarter outlays on record, $9.2 billion. On a seasonally adjusted basis, this total represented a record annual rate of $44.8 billion. However, increases in construction costs largely offset the 4 percent rise in dollar volume over the first quarter of last year.

New Orders Decline

New orders received by manufacturers declined from January to February by $500 million on a seasonally adjusted basis, with most of the decrease coming in the durable-goods industries. Sales by manufacturers held steady at $29.2 billion on the same basis, while inventories rose by $300 million, two-thirds of the increase occurring in durable goods. The inventory-sales ratio for February was 1.87 as against 1.78 for February, 1956. Since actual sales exceeded new orders by $400 million, unfilled orders were reduced by this amount.

February wholesale sales of $9.6 billion were $200 million below the preceding month, after allowing for seasonal declines. Inventories of wholesalers amounted to $13.1 billion, the same as in January after seasonal adjustment. Retail sales edged up $100 million in February, while inventories of retailers declined by the same amount, in both cases on a seasonally adjusted basis.

With allowance for seasonal factors, all sales — manufacturing, wholesale, and retail — declined $200 million during February, while inventories rose $200 million.

Personal Income Continues Rise

February personal income reached a record seasonally adjusted annual rate of $336.7 billion, $21.6 billion above the rate for February last year. The increase of $1.7 billion over the January rate came mostly from higher payrolls, primarily in nonmanufacturing industries.

An increase in private payrolls, estimated at $1.2 billion, reversed a $500 million decline in January. The advance in employment, a slight rise in hours, and somewhat higher wage rates accounted for the gain. Other advances were reported for government payrolls, nonfarm proprietors' income, and transfer payments.

THE SECOND ERA OF TOLL ROADS · · · By John F. Due · · · Page 6

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Keeping Taxes High

Most discussions of the Federal budget for 1958 have been predicated on the assumption of continuing inflationary pressure. This assumption is built into the budget estimates in various ways, specifically in the estimated tax receipts to be paid from high individual and corporate incomes to be realized in 1957. These estimates were the basis for President Eisenhower's proud assertion of "fiscal integrity" in pointing out that "a balanced budget is proposed."

The optimistic view also underlies the so-called "economy drive." It expresses the feeling that the government is doing too much in a period of high general prosperity. Perhaps even more, however, the economy drive reflects the ever-present feeling that it is less important to spend more than to cut taxes. This is bound to be a widespread feeling at income tax time. It motivates many of the letters written to Congress, crying out against the high rate of spending.

"Economy Drive" Not Getting Far

It is a mistake, of course, to think that all the pressure is from one side. Those who favor the expenditure programs are also actively pressing for the passage of measures that will give them what they want. Some programs have widespread support. Others are desired by limited minorities. But the claims of the latter are intense and their potential opposition might prevent the passage of some of the former unless all are enacted together. In the President's words, the "people demand and deserve" the programs included in the budget.

The same emphasis on programs fails to appear in most discussions of the need for economy. Both the Administration and Congress seem to think of wasteful spending in terms of payrolls rather than programs. Defense Secretary Wilson has ordered a 12 percent cut in civilian personnel in the Washington area, a minor item in his total budget, but insisted that not a penny could safely be cut from the programs under his jurisdiction. The House Appropriations Committee also whittled away at small payroll items while leaving large programs more or less intact.

Thus far the efforts to effect reductions have not met with great success. Some of the announced cuts merely reduced tentative appropriations for open-end items that may subsequently require deficiency appropriations. Others were reinstated on the House floor, where the votes are a matter of record — for example, the $50 million antipollution program providing grants to communities for building sewage disposal plants. In other cases, carry-over funds will support expenditures even though new appropriations are not approved.

This does not mean that the opposition to spending is wholly unsuccessful. Washington experts express the view that the economizers may succeed in holding expenditures for fiscal 1958 to about the level of the $72 billion requested. Otherwise expenditures might go higher still. The experts also point out that appropriations are only a loose form of control when unexpended balances carried over into the new fiscal year will total some $46 billion.

Financial Reverses Possible

An important aspect of the situation is that the expenditures of recent months have been running considerably ahead of the estimates for the current fiscal year. Defense and foreign aid expenditures in particular have soared over the estimates. Foreign developments were very important in stimulating this advance; most of the publicity centers on Suez and the Near East, but the Hungarian revolt may have been an even more important stimulus for the rebound in military expenditures.

The expansion has progressed so rapidly that current expenditures have attained the level called for by next year's estimates. This development has two important implications: If fiscal 1958 expenditures are held to the budget estimates, no further expansion will be called for through the rest of 1957; and the estimated budget surplus for fiscal 1957 may be cut in half.

If the optimistic projections of receipts are accepted, the outlook for fiscal 1958 may be viewed as still conforming to expectations. However, the change in the economic situation in 1957 suggests the possibility of an important shift in fiscal 1958, because the initiative in the over-all economic picture has shifted from the private economy to the government.

During the past two years, consumers and business pushed their expenditures vigorously, incurring large deficits to do so. They utilized all available financial resources, borrowing heavily from banks and other institutions. The Federal government, playing a comparatively passive role, was happy to accept the surpluses that the largesse of the private economy provided for it. Its expenditures remained comparatively stable while receipts forged ahead with the expansion in private activity and incomes.

In the early part of 1957, however, the emphasis has shifted. Growing signs of weakness signify the beginning of a letdown in the private sectors. At best the private economy can be expected to produce something approaching stability during the rest of this year. For the time being, the government has become the dynamic sector, and if it has to be the main support for the economy over an extended period of months, its position will tend to shift to the deficit side even though the over-all level of income remains high. The budget estimates indicating a continuation of recent surpluses represent the most optimistic basis on which government finances may be projected through fiscal 1958.

No Prospect for Tax Cuts

Under these circumstances, efforts to achieve a margin for tax reduction through economy programs are likely to be self-defeating. Any reduction in Federal ex-

(Continued on page 8)

RETAIL STORES—SALES AND GROWTH TRENDS

Retailing in Illinois is big business. The State ranks third in the nation in sales—a level it has maintained throughout the postwar decade.

The last official tabulation of retail sales, reported by the *1954 Census of Business,* listed the Illinois total at $11 billion. It is estimated that in 1956 this figure reached $12 billion, an 11 percent increase over 1954. This sales increase from 1954 was due to increases in prices as well as to an enlarged flow of goods.

Rosy as the State retail picture may appear, it is by no means exceptional. Though the State's total retail sales have risen more than 26 percent since 1948, Illinois has lost ground in the national picture because sales in other states have climbed more sharply. For example, the *Survey of Current Business* reported: "Illinois registered a small but steady downtrend throughout the period from 1948 to 1954 in its share of sales, which fell from 7½ to 6½ percent of the United States total." There are no indications of an upturn in this percentage since 1954.

Perhaps the most striking retailing development in postwar years has been the decentralization of sales from old downtown districts. Suburban shopping centers have grown with improved traffic and parking facilities available outside of heavily congested business areas.

This shift is being felt by retailers in the older, central business districts. The Department of Commerce found that between 1948 and 1954 sales rose 32 percent in 48 large metropolitan areas, whereas sales increased only 1.6 percent in their downtown business districts.

Food Store Growth

The biggest single retail group in Illinois, as well as in the nation, is the food store group. Sales in 1956 soared to an unprecedented high of $46 billion nationally and an estimated $2.6 billion in Illinois.

A comparison of the 1948 and 1954 business censuses reveals that, whereas sales rose 33 percent, the number of Illinois food stores dipped more than 20 percent. This contrast is vivid evidence that food stores sharply altered their retailing methods during that period. The essence of the change is the growth of the "supermarket." Characterized by easy accessibility, ample parking space, a large selection of items, self-service, and lower prices, the supermarket has become the dominant institution in food retailing.

Introduction of supermarkets was accelerated by the trek to the suburbs. Food store operators welcomed the opportunity to open huge markets, at low rents, in and near the mazes of well-populated postwar housing developments.

The 1948-54 sales jump had an assist from increasing use of partially or wholly processed food products, especially in the frozen food lines, which were priced higher because of the extra services involved. The stores also created additional sales by pushing out into other lines of business, selling such articles as hosiery, utensils, books, and cosmetics. Introduction of sundries, largely a postwar innovation, caught on in the outlying areas where such articles are often less readily available.

In contrast to these trends, the number of eating places grew more than 6 percent between 1948 and 1954, and over-all sales gained 38 percent. This growth reflects rising per capita income, which affords more people the opportunity of restaurant eating, and increased travel, which calls for more food consumption away from home.

The Automotive Group

The Illinois consumer, like those in other parts of the country, has placed increasing emphasis on the family car. But his use, whether it be for luxury or necessity, is expensive. For example, the *1954 Census of Business* revealed that the average Illinoisan spent nearly 22 cents of every retail dollar for his car. This amount was necessary to satisfy the driving "habit," an addiction required in part by postwar suburban living.

Sales by the automotive group fluctuated rather erratically between 1948 and 1954, but wound up with a 44 percent increase in the State and a 48 percent increase in the nation over that period. Meanwhile, the number of dealers in Illinois decreased by 250.

Gasoline and oil sales are closely related to automobile registrations because as the car population rises, filling station sales also rise. In 1948 there were fewer than 30 million cars on the nation's roads; in 1956 there were more than 50 million. Sales to car owners by filling stations skyrocketed an estimated 114 percent nationally between 1948 and 1956.

Other Retail Trends

Among the stores that continued to grow in numbers between 1948 and 1954 were the furniture, general merchandise, lumber and hardware, and apparel stores. The lumber yards, for example, have expanded their activities in keeping with the postwar housing boom. Need for additional yards in outlying districts near areas of new construction brought about a 17 percent increase from 1948 to 1954 in the State.

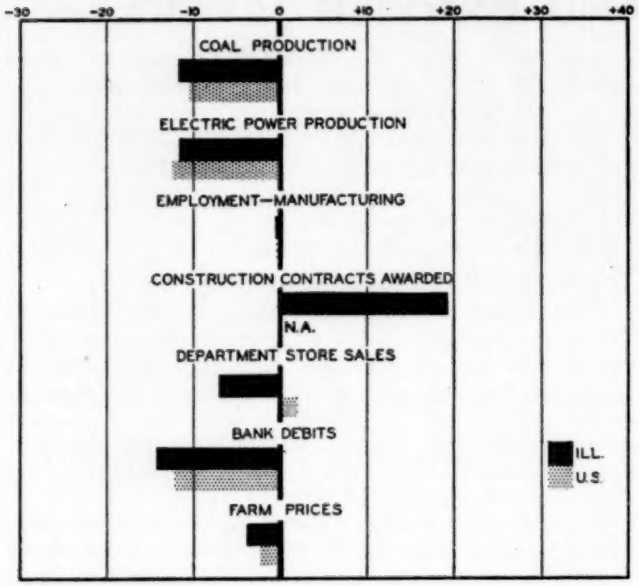
Also keeping in line with the shift to suburban areas were increases in the number of furniture and appliance stores. Their numbers in Illinois grew by 10 percent between 1948 and 1954. Sales increases of 34 percent are linked partly to the furniture and appliance needs of new housing, but important in the jump was the television craze, which occurred after the 1948 census.

In the Chicago area a major trend was developing: the city lost business rapidly while its outlying metropolitan area was gaining. In 1954, Cook County had 49 percent of the State's retail sales, and with its metropolitan area represented 64 percent of the total. However, between 1948 and 1954 Chicago had lost 8.4 percent of its total retail stores, much more than either Cook County or the metropolitan area. Likewise, as one moves outward from Chicago proper, the percentage of sales increase rises consistently, indicating that the metropolitan area is growing and, as it enlarges, is drawing stores and sales away from the old downtown district.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1957, to February, 1957



N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	February 1957 (1947-49 =100)	Percentage Change from Jan. 1957	Percentage Change from Feb. 1956
Electric power[1]	208.2	−11.5	− 0.7
Coal production[2]	85.4	−11.6	−11.7
Employment—manufacturing[3]	107.8	− 0.3	− 1.1
Weekly earnings—manufacturing[3]	155.0[a]	− 1.0	+ 3.8
Dept. store sales in Chicago[4]	118.0[b]	+ 3.5	+ 7.3
Consumer prices in Chicago[5]	121.5	+ 0.4	+ 2.7
Construction contracts awarded[6]	305.1	+19.0	n.a.
Bank debits[7]	160.6	−14.2	+ 3.3
Farm prices[8]	77.0	− 3.8	+ 4.1
Life insurance sales (ordinary)[9]	246.2	− 3.6	+20.0
Petroleum production[10]	119.9	−10.2	+ 1.4

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] January data; comparisons relate to December, 1956, and January, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	February 1957	Percentage Change from Jan. 1957	Percentage Change from Feb. 1956
	Annual rate in billion $		
Personal income[1]	336.7[a]	+ 0.5	+ 6.9
Manufacturing[1]			
Sales	350.4[a]	0.0	+ 7.4
Inventories	51.8[a, b]	+ 0.6	+10.4
New construction activity[1]			
Private residential	11.2	− 8.2	− 6.4
Private nonresidential	13.8	− 1.9	+ 5.4
Total public	9.6	− 7.3	+ 9.1
Foreign trade[1]			
Merchandise exports	20.1[c]	−16.0	+30.5
Merchandise imports	13.4[c]	+ 6.4	+ 4.2
Excess of exports	6.7[c]	−40.9	+164.7
Consumer credit outstanding[2]			
Total credit	40.5[b]	− 1.0	+ 8.1
Installment credit	31.2[b]	− 0.2	+ 8.0
Business loans[2]	30.3[b]	+ 0.2	+15.1
Cash farm income[3]	n.a.	.....	.....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	146[a]	0.0	+ 2.1
Durable manufactures	164[a]	0.0	+ 3.8
Nondurable manufactures	130[a]	0.0	0.0
Minerals	132[a]	+ 1.5	+ 2.3
Manufacturing employment[4]			
Production workers	106	− 0.6	− 0.9
Factory worker earnings[4]			
Average hours worked	101	+ 0.2	− 0.7
Average hourly earnings	154	0.0	+ 6.2
Average weekly earnings	155	+ 0.2	+ 5.4
Construction contracts awarded[5]	n.a.	.....	.....
Department store sales[2]	124[a]	− 0.8	+ 4.2
Consumers' price index[4]	119	+ 0.4	+ 3.6
Wholesale prices[4]			
All commodities	117	+ 0.1	+ 4.1
Farm products	89	− 0.6	+ 3.3
Foods	104	− 0.3	+ 5.1
Other	126	+ 0.2	+ 4.1
Farm prices[3]			
Received by farmers	86	− 2.3	+ 2.4
Paid by farmers	118	+ 0.9	+ 5.4
Parity ratio	80[d]	− 2.4	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for January, 1957; comparisons relate to December, 1956, and January, 1956.
[d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957 Mar. 23	1957 Mar. 16	1957 Mar. 9	1957 Mar. 2	1957 Feb. 23	1956 Mar. 24
Production:						
Bituminous coal (daily avg.)....thous. of short tons	1,710	1,704	1,617	1,610	1,642	1,660
Electric power by utilities....mil. of kw-hr	11,723	11,650	11,867	11,791	11,920	11,134
Motor vehicles (Wards)....number in thous.	162	162	159	162	162	155
Petroleum (daily avg.)....thous. bbl.	7,818	7,799	7,813	7,519	7,567	7,163
Steel....1947-49 = 100	139	139	140	143	145	142
Freight carloadings....thous. of cars	686	689	672	704	627	697
Department store sales....1947-49 = 100	113	107	98	99	100	112
Commodity prices, wholesale:						
All commodities....1947-49 = 100	116.9	116.9	116.8	116.9	116.9	112.8[a]
Other than farm products and foods..1947-49 = 100	125.3	125.4	125.3	125.4	125.4	121.0[a]
22 commodities....1947-49 = 100	88.8	88.8	88.6	88.0	88.5	90.1
Finance:						
Business loans....mil. of dol.	31,579	30,844	30,444	30,314	30,347	27,741
Failures, industrial and commercial...number	318	301	327	284	300	208

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for March, 1956.

RECENT ECONOMIC CHANGES

Price Advance Continues

Consumer prices moved upward another 0.4 percent in February. Higher food and housing prices accounted for most of the rise, although advances occurred for all major groups of goods and services except apparel. The increase in food prices was the largest since last July. In housing the rise was due almost entirely to higher prices for house furnishings, up 1 percent during the month, the largest advance in this group since early 1951. Average rents, which moved up more or less steadily throughout the postwar period, have stabilized in recent months.

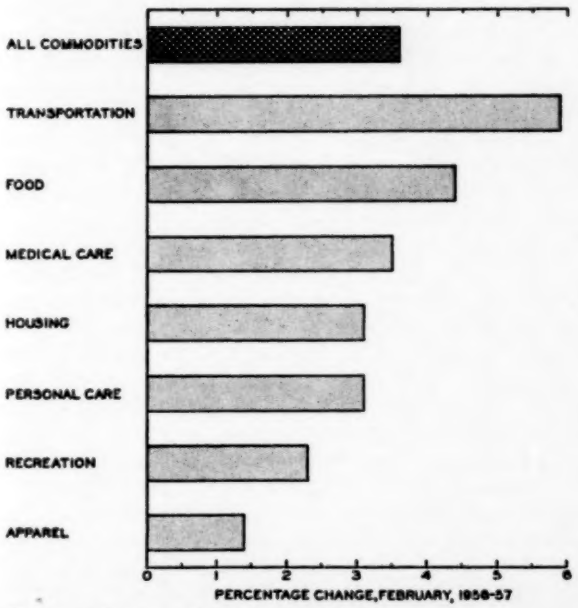
The gain in average consumer prices over the past year, scored mainly in the last nine months, is the largest experienced since the Korean War period of 1950-51. As shown by the chart, all major components of the price index contributed to the over-all advance from a year ago. Average prices rose by 3.6 percent to the February high of 118.7 (1947-49 = 100). Higher prices of food and housing, which account for about three-fifths of consumer expenditures, have been most significant, although the biggest percentage gain was recorded for transportation equipment. This reflects to a considerable extent higher costs of new and used cars over last year, as well as further advances in auto maintenance charges, gasoline prices, insurance rates, and prices of tires. Prices of consumer services, such as medical and personal care, which have risen more than other major groups over the past five or six years, moved up relatively less in the past twelve months.

Consumer Finances

The financial position of consumers improved on the average last year. On the basis of continued optimism about the future, families and other spending units plan to make major expenditures for durable goods about equal to those they made in 1956, according to preliminary indications of the annual Surveys of Consumer Finances conducted by the University of Michigan for the Federal Reserve Board. About 41 percent of all spending units reported incomes of $5,000 or more last year compared with 36 percent in 1955 and 26 percent in 1952; 17 percent reported incomes over $7,500, twice the 1952 proportion. Increases in incomes were widely distributed among occupational groups, with 45 percent of spending units sampled reporting higher incomes than in the preceding year. This was the highest proportion of increases since 1953.

About 8 percent of the spending units plan purchases of houses this year as compared with 9 percent last year. On the other hand, 24 percent indicated plans to make home improvement outlays of $50 or more, about 2 percent more than in 1955. Approximately 8 percent plan purchases of new cars and 8 percent plan to buy used autos, in both cases about the same proportion as in 1956. A slightly higher number than in 1956 were planning furniture and appliance outlays in early 1957. Continued optimism is reflected to some extent in the expectation by an increased percentage of spending units that they will fare better, income-wise, in 1957 than last year.

CONSUMER PRICES



Source: Bureau of Labor Statistics.

Housing Vacancies

The vacancy rate on houses for rent or sale declined slightly in the closing quarter of 1956, according to the latest Census sample. Vacant units for sale dipped from 0.6 percent of available units in the third quarter to 0.4 percent. Vacancies for rent of 2.1 percent were about the same as reported in earlier surveys for 1955 and 1956. The over-all rate of 2.5 percent on units available for rent or sale in the fourth quarter was, however, considerably higher than the 1.6 percent in 1950.

The recent decline in vacancy rates resulted largely from a drop in available vacancies in the West and in the North Central Region. The West and the South continued to have the highest vacancy rates, 3.2 and 3.3 percent respectively. The rate for the North Central Region was 2.1 percent and for the Northeast 1.6 percent.

The vacancy rate in the last quarter of 1956 for rental units alone amounted to 5.3 percent. This "rental vacancy rate" expresses the relationship between vacant housing that is offered for rent and the total rental supply, i.e. the sum of the renter-occupied units, vacant units already rented and awaiting occupancy, and vacant units available for rent.

Financing Plans for 1957

Public utilities and large manufacturing concerns plan to obtain a moderately larger volume of funds through the securities markets and bank borrowings in 1957 than in 1956, according to 1957 financing plans obtained by the Securities and Exchange Commission. The survey of financing intentions taken in conjunction with the annual survey of capital expenditures is considered tentative since these plans are subject to marked change on short notice. However, the general pattern of financing intentions conforms to that of capital outlays.

External financing by utilities and manufacturing concerns changed little between 1954 and 1955, then rose substantially in 1956 along with plant and equipment investment. A much more moderate advance is anticipated in 1957 in both financial requirements and expenditures.

The survey indicates that new external financing by manufacturers and utilities in 1957 is expected to rise

(Continued on page 8)

THE SECOND ERA OF TOLL ROADS

JOHN F. DUE, Professor of Economics

In the first three decades of the last century a substantial network of toll roads, privately owned and operated, spread throughout much of the settled portion of the country. They provided the only routes for through intercity travel, and the major roads were crowded with stage coaches, freight wagons, and droves of cattle. But they vanished almost as quickly as they came, victims primarily of the railroad. The companies failed, their right of ways reverted to the states and in turn were given to the local governments for use as access roads. By 1870 even the great National road from Cumberland to Vandalia, the Federal government's only major contribution to early roadbuilding, had degenerated into barely passable rural byways.

The Revival of Toll Roads

As is well known, when the automobile revived the demand for good roads, the principle of free roads, eventually financed largely by benefit-based levies on road users, became universally adopted, except for major bridges. By the thirties it appeared that this system was proving, in general, to be an adequate one for highway development. But by the end of the decade interest in possible use of toll roads was reviving. The first major project, the Harrisburg-Pittsburgh section of the Pennsylvania turnpike, was conceived in large part as an unemployment-relief measure and on this basis was aided financially by Federal grants. The success of this turnpike, which replaced particularly unsatisfactory roads, led other states to consider the possible use of the toll principle. In the postwar era, and particularly after 1950, there occurred a rapid increase in toll road construction. As of February 1, 1957, there were approximately 2,400 miles of toll roads in operation, and 850 miles under construction.

The toll network is shown in the accompanying chart. The major routes include:

1. The New York-Pittsburgh-Chicago route, including the New Jersey, Pennsylvania, Ohio, and Indiana turnpikes, and a short stretch in Illinois under construction.
2. The New Jersey-New York-New England routes, including the Garden State parkway, the New York throughway from New York City to Buffalo, and routes in Connecticut, Massachusetts, New Hampshire, and Maine.
3. The routes in the southwest, intended as links in a major network, most of which has never been built. The actual routes extend from Oklahoma City to Tulsa and the Missouri border near Joplin; from Kansas City to Wichita and the Oklahoma border; and from Fort Worth to Dallas.
4. Isolated segments in Colorado (Denver-Boulder), West Virginia (Charleston-Princeton), Florida (Miami-Fort Pierce, projected northward to Jacksonville), Kentucky (Louisville-Elizabethtown), and Virginia (Richmond-Petersburg).

Reasons for Toll Principle Revival

Why did the states return to the use of the toll principle? In general, the explanation lies in their inability, in the postwar period, to finance certain urgently needed and very expensive routes by traditional means. The lag in construction during World War II created a backlog of highway projects, and the very rapid increase in the

TOLL ROADS IN THE UNITED STATES, FEBRUARY 1, 1957

use of motor vehicles in the last decade caused serious congestion on many routes. Total vehicle miles doubled between 1940 and 1955, with a disproportionate increase by larger vehicles. Truck ton-mileage increased 3½ times over this interval. Many major routes were becoming increasingly obsolete, because of design and curvature, routing through city streets, and growth of roadside businesses. In many instances two lane pavements were inadequate, but the cost of widening existing roads was virtually prohibitive. The index of highway construction costs increased 2½ times between 1940 and 1956. In the face of this growing need, the state legislatures were unwilling to raise the gasoline tax rates even sufficiently to keep pace with inflation; the weighted average increase in the tax was only 27 percent between 1941 and 1954.

Furthermore, rate increases alone would not solve the problem. The urgent highway needs were concentrated on a relatively few heavily traveled roads and urban expressways. But state highway revenue allocation formulas funneled a large portion of the funds to rural roads for which the need was much less, and the legislatures were reluctant to change the formulas, partly because of domination by rural representatives, partly because many needed routes served only limited areas of the states.

The adoption of the toll method allowed the building of the most urgently needed, expensive routes quickly without the need for gas tax or allocation formula changes, with the cost imposed upon those particular persons who directly benefited. The financing by borrowing permitted the construction of the roads as a unit, rather than piecemeal, and thus immediate use of the entire route was obtained. To some states the toll method was particularly attractive because it placed a large part of the cost on out-of-state motorists, who were contributing much to the congestion, but little to the state revenues.

Features of the Toll Systems

The major features of the toll road system can be summarized briefly. All have been built by state agencies, specifically, in almost all cases, by special turnpike authorities. A plan for private construction and operation in Texas was abandoned. Toll charges vary with mileage, the typical charge being 1 to 1½ cents per mile, the equivalent of an additional gas tax of about 15 to 20 cents per gallon. The total toll from the Chicago area to New York City is about $11. The charge for trucks varies with weight, ranging typically from 4 to 6 cents a mile for large vehicles. The tolls have been set primarily on the basis of estimated revenue maximization and have been varied only in an effort to improve revenues.

The cost of contruction has averaged about $1.2 million a mile, ranging from around $300,000 to $2 million, with some stretches of the New Jersey turnpike as high as $8 million a mile. At present cost levels, a figure of $1.6 million is typical. The total cost of existing toll roads and those under construction is about $4.4 billion. All of the toll roads are four-lane except the two-lane West Virginia route. The roads have been financed almost entirely from borrowing, for the most part by revenue bonds secured only by the revenues of the toll road. The revenue bonds avoided constitutional debt limits and were more palatable to many state legislatures. On the other hand the interest cost was higher, from .5 to .75 of a percentage point. Because of this factor, New York State and New Hampshire financed their toll roads by general obligation bonds.

The relative importance of passenger car and truck revenues varies widely, truck revenues reaching a high of 65 percent of total toll revenue on the Pennsylvania turnpike, in contrast to 16 percent in Maine and New Jersey. Ohio anticipated 65 percent of its revenues from trucks, but the actual figure was only 30 percent. A significant revenue source has been the charge made for service station and restaurant concessions, which has yielded from 5 to 16 percent of the total revenue.

The End of the Toll Road Movement

The toll road movement reached its peak in 1954 and 1955. In the former year total toll road financing reached a high of $1.2 billion, and in 1955 the figure was $750 million. At the end of 1955 it was expected that from $1.5 to $2.5 billion of toll road bond issues would reach the market in 1956. In addition to the 3,250 miles built or under construction, at least 2,220 miles were authorized, and more than 1,000 miles were under consideration; had all this mileage been built, the total would have reached nearly 7,000 miles. At times the toll movement reached almost mania stages, with projects discussed which could not possibly have paid for themselves.

The bubble burst suddenly in 1956. The actual financing in that year was $178 million, and new projects started during the year were one in number — an 8-mile section! Many authorized projects, involving at least 1,500 miles, were permanently or temporarily shelved. As shown on the chart, as of February, 1957, beyond the routes under construction, only the extension of the Florida turnpike, of all projected routes, shows any definite likelihood of being built on a toll basis.

Several major factors brought a temporary, if not permanent, end to the toll road movement. The first was the tightening of the money market during the year, which made the raising of funds more expensive. More significant, however, was the rather poor financial showing of some of the routes. Most of the earliest turnpikes, such as those of Pennsylvania and New Jersey, had been even more profitable than expected; the New Jersey turnpike traffic has been doubled the estimated volume. Even the Maine route, the weakest of the first projects, managed to cover costs and interest after toll revision. But the routes opened late in 1955 and 1956 were disappointing. The Pennsylvania extensions, and the Ohio, Indiana, Kentucky, and Kansas turnpikes showed financial results below estimates. A major downward toll revision was necessary in Ohio to end a truck boycott and obtain needed revenues. The most disappointing results were to be found in West Virginia, partly because of the failure of adjacent states to build feeders. Earnings in that state are inadequate to cover interest, and bond default is regarded as likely. These results served as a sharp warning that additional routes with less traffic potential than the existing routes could not be expected to cover costs.

The final blow was struck by the passage of the Federal-Aid Highway Act of 1956. This act provided for Federal grants of roughly $2 billion dollars a year for the financing of 90 percent of the cost of the 41,000-mile network of interstate and defense highways, to cost a total of $30 billion over the next thirteen years. The present Federal highway program was retained and the sums of the Federal grants (on a 50-50 basis) increased. The act provided specifically that the toll roads may be included in the 41,000-mile network, and many undoubtedly will be. But expenditure of granted funds for building or improving toll routes is specifically prohibited. The act provides for a study of possible reimbursement to the states of funds spent since 1947 on new toll or free highways.

The Future of the Toll Roads

The Highway Act created some fear about the future of existing toll roads, and further depressed toll road bonds. But it eventually became clear that many of these fears — particularly that new free highways would be built parallel to the toll roads — were groundless. Now, nine months after the enactment of the act, the following observations can be made about the apparent significance of the Highway Act for the toll road movement:

1. The financial position of the existing routes will be improved as free feeder routes are built under the Federal program. Parallel free highways will certainly not be built, although in some instances more distant parallel routes may divert limited amounts of traffic.

2. The building of new toll roads in addition to routes under construction is very unlikely in the immediate future, if at any time, since the routes most suitable for the toll principle will receive high priority under the Federal program.

3. The present toll routes may eventually be freed from tolls. If the Federal government decides to reimburse the states for the toll routes, it will be possible to convert them quickly into free highways. There is likely to be substantial pressure on Congress to provide funds for this purpose; as new free superhighways are built under the Federal program, areas in which toll roads are in operation will claim discrimination.

As the net effect of the Federal program became clearer, and the earnings pictures of many of the routes improved, the toll bonds gradually recovered in price, particularly in January of 1957. For example, Ohio turnpike bonds, which are representative, had fallen from 103 on January 2, 1956, to 83 in December of 1956 (an increase in yield from 3.11 to 4.17 percent), but rose to 91 by February 5, 1957. Except for issues like West Virginia, where there is some danger of default, the net increase in yield over a year ago is now merely a reflection of the general increase in interest rate levels.

Conclusion

The apparent end of the toll road movement is regarded by many as desirable. While the use of the toll principle allowed the early construction of some of the most important and urgently needed routes, it offers no magic advantage over the traditional methods of highway finance. The costs of collection, although as low as 3 percent on the busy Pennsylvania turnpike, reach 10 percent in Maine and 15 percent in Colorado — far higher figures than the cost of administering the gasoline tax. The net interest cost is substantial, especially with revenue bonds. The toll system can be used only on limited routes; even before the Federal highway program, the toll system had probably gone about as far as it could go and continue to be self-supporting. A vehicle movement of 4,000 to 5,000 a day is required for self-support, and a relatively limited mileage of through roads offers this amount. The toll method increases the total costs of construction, since existing routes cannot be utilized at all, and rigid limit to access is required. The toll system is particularly unsatisfactory on urban expressways, where the need for very expensive improvements is the greatest, because of the short trips, the need for many access points, and the peak-load nature of the traffic. Finally, the use of the toll method has postponed the need, in many states, for urgently needed changes in highway user tax rates and highway revenue allocation formulas, which would otherwise have become imperative.

Keeping Taxes High

(Continued from page 2)

penditures at this juncture would accentuate the overall weakness already apparent and react adversely on the segments of private investment that have continued strong up to this point. If the private economy weakens, certain kinds of government spending would have to rise faster. It is said that the budget for 1958 makes a start on some programs that could be expanded if they were needed to stimulate the economy. But higher spending, combined with lower receipts from a weakening private economy, would make the reversal in Federal finances extreme.

If the budget view of the situation proves correct, the surplus available for tax reduction will be small. It now seems unlikely to reach the $3 billion level specified by Secretary Humphrey as the minimum that would justify tax reduction. In this event, disagreement over the form of tax reductions would limit the possibility of action. Each group of taxpayers tends to regard its own position as particularly unfavorable and would like to have its own pet inequities eliminated. Labor, subject to withholding and unable to use tax-avoidance devices, wants reductions at the lower end of the scale, in part through reinstatement of the "earned income" deduction. Others, in the higher income brackets, want reductions in surtax rates which they regard as "confiscatory"; the TV quiz programs have dramatized their problem for the public.

If the budget position worsens, the need for all available revenues will tend to preclude general tax cuts. The case for any tax cutting would then rest upon its contribution to supporting the economy. Any tax cut has something of this effect, of course, but those best adapted to this objective are not the kind desired by the strongest advocates of tax reduction. The most effective change for reducing the burden of taxes on consumption would be to raise personal exemptions. This would be welcomed by many at the lower end of the scale but is not regarded with enthusiasm by those further up.

Recent reports from some Washington observers to the effect that tax reduction is certain in 1958 do not appear to be well founded. General cuts would seem to be possible only with a substantial reduction in the overall budget, which means primarily in military programs. The Hungarian revolt has upset the Russian peace offensive and re-created a situation that bars such relaxation. The Suez affair is shifting the burden of Western defense more completely to us. What the President euphemistically describes as "waging peace abroad" is the most important factor in keeping taxes high. VLB

Recent Economic Changes

(Continued from page 5)

from $7.9 to $8.4 billion, the latter consisting of $5.2 billion of bonds and notes, $1.7 billion of equity financing, and $1.4 billion of bank loans. In manufacturing, plans are to reduce bond issues and bank borrowing and to increase equity financing slightly. Total external financing of $4.2 billion is anticipated, compared with $5.0 billion last year. For utilities the situation is somewhat different. Bond and bank borrowing are expected to be higher and stock financing about the same as 1957. As a result of increased borrowing, utilities expect to increase their demand for external funds to $4.1 billion from $2.1 billion last year.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Sinking Profit Margin

Retailers in the automotive industry are still hoping that 1957 will prove to be a more prosperous year, as final 1956 tabulations for all dealers showed that combined operating profits were only eight-tenths of 1 percent of sales before any provision was made for Federal income taxes. The National Automobile Dealers Association stated than in only one year since 1940 had the profit ratio been lower — in 1954 when the average dropped to six-tenths of 1 percent. In 1956, 3 dealers out of 10 reported an operating loss.

According to the National Automobile Dealers Association, the unfortunate profit experience resulted almost completely from failure to maintain a sufficient gross margin from new car sales to cover the actual cost of selling and servicing them. Gross profit amounted to $716 per new unit retailed — $403 per new unit sold from combined new and used unit sales plus $313 per new unit from service, parts, and other sources. A total operating expense of $677 left an operating profit of only $39 per car.

Maps for All Purposes

For the motorist, vacation planner, or information seeker, the recently published Rand McNally road atlas will prove helpful. Within its 120 pages can be found information about toll roads, turnpikes, and locations of approximately 78,000 cities and towns. This atlas is available for $1.75 from Rand McNally and Company, Box 7600, Chicago 80.

Country orientation may be made more readily with the aid of the new 16-inch Replogle world globe. Weighing about 8 pounds, it features an action mounting that permits the globe to be swung forward and backward to get a full view of either the North or South Pole. Further information is available from Replogle Globes, Inc., 1901 N. Narragansett Avenue, Chicago 39.

A three-dimensional relief map of the world, lithographed in 10 colors and measuring 61 by 42 inches, can be decorative as well as useful in the schoolroom, office, or home. This two-pound map has been formed from Bakelite rigid vinyl sheet. Time zones, geographic data, and political information are included on it. Retailing for $47.50, the map may be purchased from the Aero Service Corporation, 210 E. Courtland Street, Philadelphia 20, Pennsylvania.

Phones for Farmers

For the first time in history, more than one-half of the farms in the United States have telephone service, according to the results of the annual July survey made in 1956 by the United States Department of Agriculture. This ratio has climbed steadily from 25 percent in 1940 to nearly 52 percent in 1956. On the other hand, in the 20 years prior to 1940 this ratio had declined nearly 14 percentage points.

All states and geographic regions showed increases since the 1955 survey. The South Atlantic and South Central regions, the only regions with a farm telephone population of less than 50 percent, showed the greatest percentage and absolute increases.

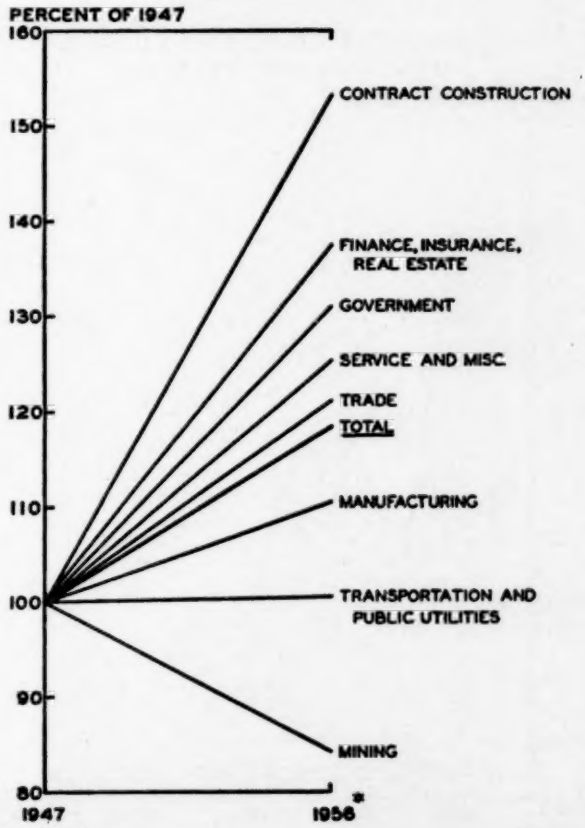
Monthly charges for local phone service were at an all-time high of $3.66 per farm phone. Charges ranged by region from $4.60 in New England to $2.99 in the West North Central area, where farmer-owned lines are still relatively numerous. The Department of Agriculture attributes much of the regional variation in cost to the differences in type and quality of services provided to farmers.

Nonagricultural Employment

Total nonagricultural employment rose to a new high in 1956 with a monthly average of 51.5 million, according to the United States Department of Labor. This was a gain of 1.5 million over the previous high in 1955 and 8 million above the 1947 average. Nonmanufacturing industries accounted for four-fifths of the increase since 1947 and represented two-thirds of the total nonagricultural employment in 1956. The manufacturing industries, averaging slightly less than 17 million in 1956, recorded an increase of 1.6 million. Durable goods dominated the picture with a gain of 1.4 million.

The greatest relative change over the 10-year period was recorded in contract construction, which increased more than 53 percent (see chart). Mining, on the other hand, reported a decrease of nearly 16 percent and was the only industry with an employment decline. A cut in coal production of about 50 percent more than offset gains in the other mining industries.

NONAGRICULTURAL EMPLOYMENT, 1956
(Monthly averages)



*Preliminary.
Source: U. S. Department of Commerce.

LOCAL ILLINOIS DEVELOPMENTS

Fewer working days and other seasonal factors led to declines in most of the Illinois business indicators during February. Decreases of more than 10 percent were recorded for electric power, coal, and petroleum production and bank debits. However, construction contract awards increased by almost one-fifth and slight gains were reported for two other indicators — consumer prices and seasonally adjusted department store sales.

Comparisons with the same period a year ago are generally more favorable. Life insurance sales increased by one-fifth, and business loans were up more than one-eighth. On the other hand, coal production declined almost 12 percent.

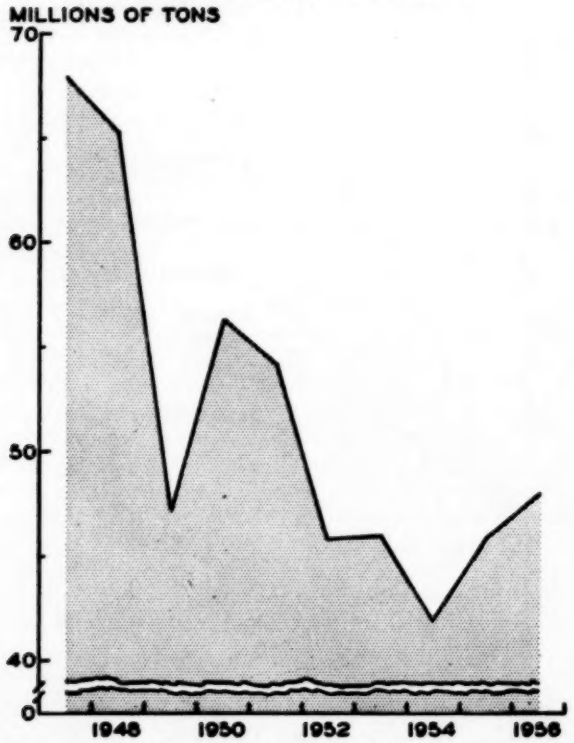
Coal Production

Reaching a five-year high of 48 million tons, the 1956 output of bituminous coal and lignite in Illinois gained 14 percent over the 20-year low of 1954 (see chart). On the other hand, a downward trend in coal production, emphasized by the severe drop in 1949, has been evident since the World War II upsurge. A temporary boom during the Korean War was followed by declining production levels through 1954.

Retaining its fourth-rank position (Kentucky bumped Illinois from third place in 1946), Illinois has produced approximately one-tenth of the nation's total bituminous coal since 1947. Nearly three-fourths of the nation's 500 million tons in 1956 was produced by the top four states — West Virginia, Pennsylvania, Kentucky and Illinois.

Preliminary 1955 figures for Illinois indicate that three-fifths of the mining was underground and the remainder was strip. The average value per ton varied with the mining method; for underground-mined coal it was $3.71 per ton as compared with $3.57 per ton for strip-mined. The over-all average was $3.66.

BITUMINOUS COAL AND LIGNITE PRODUCTION, ILLINOIS



Source: U. S. Department of the Interior, *Mineral Industry Surveys.*

Spring Planting

Prospective plantings for Illinois are down slightly from last year as farmers plan a 3 percent reduction in acreage for corn, the major State crop. The Illinois Cooperative Crop Reporting Service has reported that in addition to the cut in corn plantings to 8.6 million acres, the lowest since 1950, a decline of 6 percent is estimated for both hay and oats. A total of 3.0 million acres of oats sets a record low for the last 50 years.

Partly offsetting these reductions is an expansion of 6 percent to an all-time high of 5.1 million acres in soybeans, the second most important crop in the State. Having less effect on the over-all acreage are expected increases in winter wheat, barley, and rye.

Water Projects

Southern Illinois will undergo a "face-lifting" if a majority of the flood control and navigation projects proposed by the Corps of Engineers are authorized. Suggested improvements relate to four rivers — Kaskaskia, Cache, Saline, and Big Muddy-Beaucoup Creek. The largest project by far is the Kaskaskia basin flood control plan. Two phases of this plan have already received congressional authorization — the Carlyle dam and reservoir at an estimated cost of $33 million and the Carlyle-New Athens levees at $9 million. Phases awaiting authorization are the Shelbyville dam and reservoir ($23 million) and the Cowden-Vandalia levees ($5 million).

A preliminary examination is under way to determine the possibilities of flood control and drainage improvements for the lower Cache. On the Saline, a $6 million flood control project has been recommended. Although a preliminary examination concerning canalization of the Big Muddy River and Beaucoup Creek has been completed and engineering feasibility determined, a detailed study of the economic worth is necessary.

Two other projects of consequence in Southern Illinois are the proposed Rend Lake near Benton in Franklin County and Devil's Kitchen dam in the Crab Orchard National Wildlife Refuge between Carbondale and Marion. Rend Lake costs were estimated at $19 to $22 million. If carried through, the project would be handled by the sponsoring Conservancy District. More progress has been made on the Devil's Kitchen dam. Begun prior to World War II, work will continue this spring with the $2 million appropriated and possibly another $1.3 million that is awaiting final authorization.

State water projects not under the jurisdiction of the Corps of Engineers include several prospective lakes. The two counties most certain of legislative grants have already selected sites and started land acquisition. These sites are Rock Cut in Winnebago and Sleepy Fox Hollow in Randolph.

NOTE: Bank debit figures for Decatur (p. 11) include debits of two additional banks beginning with January, 1957. It is estimated that 1956 totals would be increased by approximately 4 percent; this adjustment has been made in 1956 data for year-to-year comparisons.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1957

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		**$41,255**[a]	**1,182,284**[a]			**$14,035**[a]	**$13,491**[a]
Percentage change from	Jan., 1957	+48.6	−0.5		−7	−14.2	−3.6
	Feb., 1956	+43.3	+6.3		+5	+3.3	
NORTHERN ILLINOIS							
Chicago		**$33,294**	**900,125**			**$12,831**	**$11,660**
Percentage change from	Jan., 1957	+35.7	−0.0		−7	−14.1	−1.5
	Feb., 1956	+70.2	+6.2		+4	+3.2	
Aurora		**$1,251**	n.a.			**$ 56**	**$ 129**
Percentage change from	Jan., 1957	+627.3			−2	−13.2	−7.4
	Feb., 1956	+555.0			+4	+5.9	
Elgin		**$ 158**	n.a.			**$ 37**	**$ 95**
Percentage change from	Jan., 1957	+129.0			+4	−9.2	−6.9
	Feb., 1956	+182.1			+2	+8.8	
Joliet		**$1,418**	n.a.			**$ 71**	**$ 86**
Percentage change from	Jan., 1957	+1,458.2			−4	−14.2	−31.4
	Feb., 1956	+327.1			−2	+5.0	
Kankakee		**$ 137**	n.a.			n.a.	**$ 44**
Percentage change from	Jan., 1957	+80.3			n.a.		−15.3
	Feb., 1956	−53.1					
Rock Island-Moline		**$ 436**	**23,663**			**$ 86**[b]	**$ 161**
Percentage change from	Jan., 1957	+54.1	−3.7		n.a.	−15.2	−5.0
	Feb., 1956	−50.1	−7.1			+4.8	
Rockford		**$ 742**	**50,324**			**$ 166**	**$ 214**
Percentage change from	Jan., 1957	+9.4	−2.2		0	−10.2	−21.8
	Feb., 1956	+1.5	+26.7		+23	+3.5	
CENTRAL ILLINOIS							
Bloomington		**$ 82**	**8,488**			**$ 55**	**$ 97**
Percentage change from	Jan., 1957	+156.3	−2.3		n.a.	−25.5	+5.0
	Feb., 1956	−43.4	+1.9			+6.0	
Champaign-Urbana		**$ 211**	**11,002**			**$ 61**	**$ 77**
Percentage change from	Jan., 1957	+32.7	−3.0		n.a.	−16.9	−33.7
	Feb., 1956	−21.6	+1.2			+4.9	
Danville		**$ 106**	**11,904**			**$ 46**	**$ 54**
Percentage change from	Jan., 1957	−40.8	−0.8		+11	−22.0	−21.7
	Feb., 1956	+63.1	+10.2		+9	+1.0	
Decatur		**$ 888**	**34,967**			**$ 107**	**$ 111**
Percentage change from	Jan., 1957	+196.0	+5.1		0[c]	−17.2	−24.5
	Feb., 1956	+91.0	+6.2		+1[c]	−4.4	
Galesburg		**$ 170**	**8,876**			n.a.	**$ 35**
Percentage change from	Jan., 1957	+63.5	−4.5		n.a.		−23.2
	Feb., 1956	+3.7	+0.9				
Peoria		**$ 444**	**55,287**[c]			**$ 208**	**$ 262**
Percentage change from	Jan., 1957	+2.5	−2.1		+1[c]	−10.0	−6.9
	Feb., 1956	−69.4	+6.2		+3[c]	+5.4	
Quincy		**$1,567**	**10,418**			**$ 37**	**$ 60**
Percentage change from	Jan., 1957	+885.5	+5.6		−13	−15.6	−24.8
	Feb., 1956	+861.3	+8.7		−16	+6.8	
Springfield		**$ 189**	**32,991**[c]			**$ 109**	**$ 276**
Percentage change from	Jan., 1957	−12.9	−8.7		0[c]	−16.3	+2.4
	Feb., 1956	−92.8	+2.7		+3[c]	+6.6	
SOUTHERN ILLINOIS							
East St. Louis		**$ 79**	**12,524**			**$ 133**	**$ 57**
Percentage change from	Jan., 1957	−8.1	+2.7		n.a.	−18.2	−45.5
	Feb., 1956	−87.9	−7.8			+11.9	
Alton		**$ 60**	**13,830**			**$ 33**	**$ 32**
Percentage change from	Jan., 1957	−34.8	−6.6		n.a.	−16.1	−27.9
	Feb., 1956	−70.1	+4.9			−7.8	
Belleville		**$ 23**	**7,886**			n.a.	**$ 42**
Percentage change from	Jan., 1957	−75.8	−2.0		n.a.		−22.9
	Feb., 1956	−95.8	+10.8				

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for January, 1957, are not available. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending February 8, 1957.

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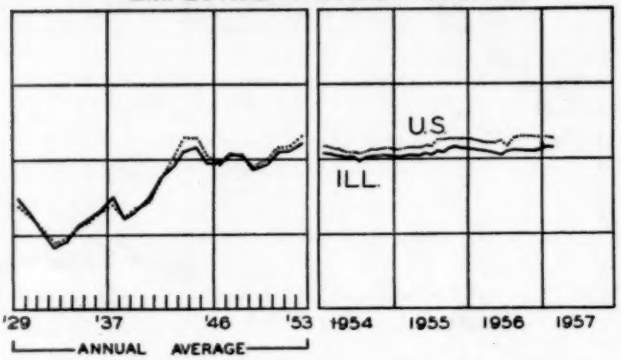
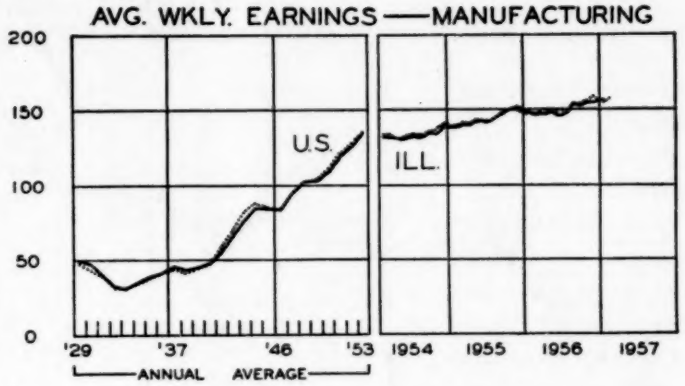
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

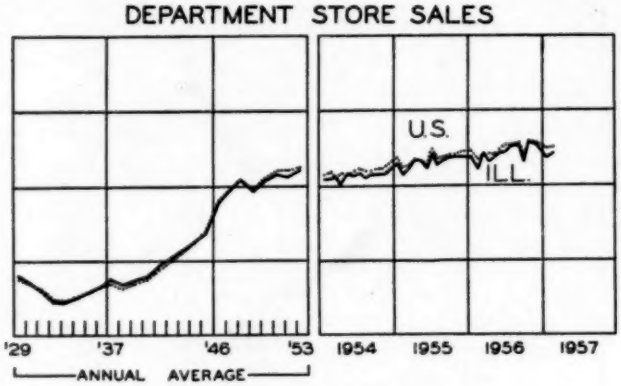
EMPLOYMENT–MANUFACTURING



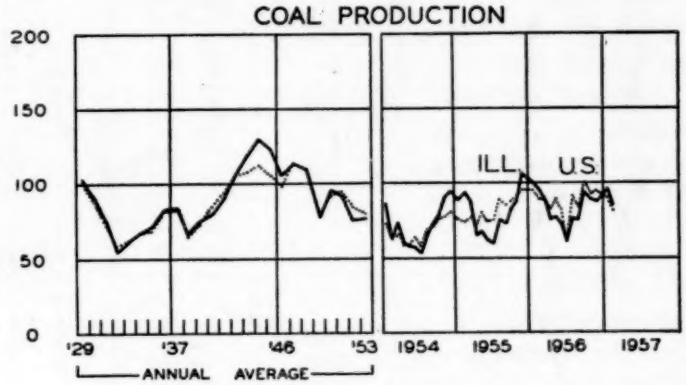
AVG. WKLY. EARNINGS — MANUFACTURING



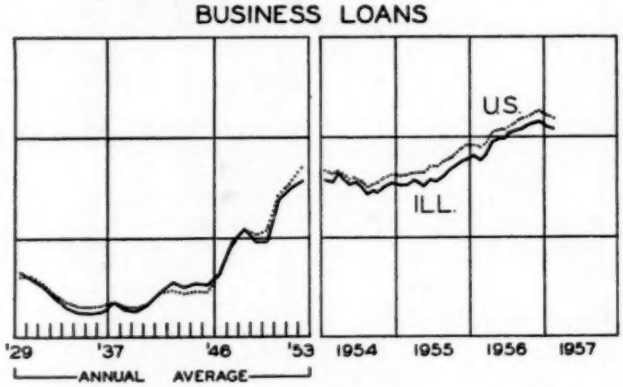
DEPARTMENT STORE SALES



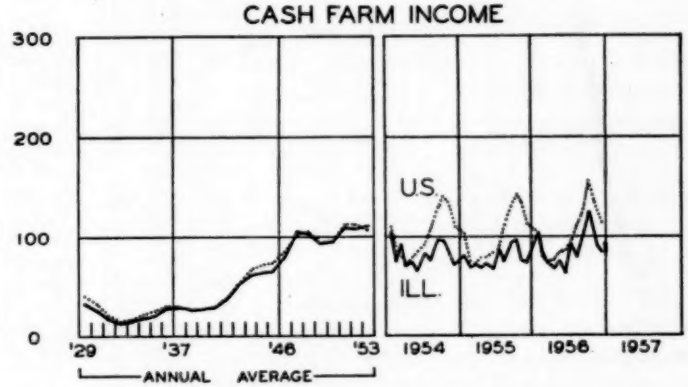
COAL PRODUCTION



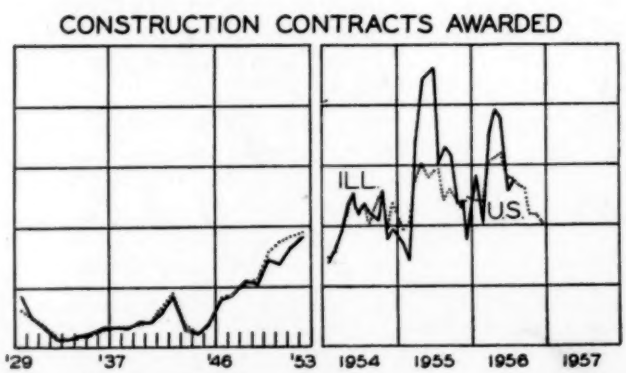
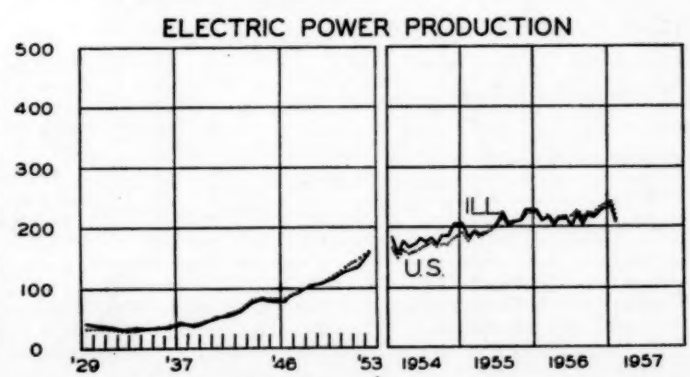
BUSINESS LOANS



CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION